

PRELIMINARY OFFICIAL STATEMENT

Dated May 8, 2003

Ratings:

Moody's: "Applied for"

S&P: "Applied for"

See ("OTHER INFORMATION - RATINGS" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Obligations will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations.

**THE OBLIGATIONS WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS"
FOR FINANCIAL INSTITUTIONS**

CITY OF COLLEGE STATION, TEXAS

(a Home-Rule City located in Brazos County, Texas)

\$4,790,000

**GENERAL OBLIGATION BONDS
SERIES 2003**

\$780,000

**CERTIFICATES OF OBLIGATION
SERIES 2003A**

Dated Date: July 1, 2003

Due: February 15, as shown below

The \$4,790,000 City of College Station, Texas, General Obligation Bonds, Series 2003 (the "Bonds") and the \$780,000 City of College Station, Texas, Certificates of Obligation, Series 2003A (the "Certificates") are being issued by the City of College Station, Texas (the "City") pursuant to the terms of two separate ordinances adopted by the governing body of the City. The Bonds and the Certificates are referred to herein collectively as the "Obligations."

The Obligations are issuable only in fully registered form in the denomination of \$5,000 principal amount or integral multiples thereof, initially registered solely in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Obligations, until DTC resigns or is discharged. The Obligations initially will be available to purchasers in book-entry-form only. So long as Cede & Co is the registered owner of the Obligations, as nominee for DTC, the Paying Agent/Registrar, initially JPMorgan Chase Bank, Dallas, Texas, (the "Paying Agent/Registrar") will pay the principal of and interest on the Obligations to Cede & Co., which will, in turn, remit such amounts to DTC participants for subsequent disbursement to the beneficial owners of the Obligations.

Interest on the Obligations will accrue from the dated date as shown above and will be payable on February 15, 2004 and on each August 15 and February 15 thereafter until maturity or early redemption. Interest on the Obligations will be calculated on the basis of a 360 day year consisting of twelve 30-day months.

The City reserves the right, at its option, to redeem Obligations having stated maturities on and after February 15, 2014, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2013, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE OBLIGATIONS – OPTIONAL REDEMPTION").

In addition to the foregoing optional redemption provision, if principal amounts designated in the Maturity Schedule herein are combined to create Term Obligations, each such Term Obligation shall be subject to mandatory sinking fund redemption commencing on February 15 of the first year which has been combined to form such Term Obligation and continuing on February 15 in each year thereafter until the stated maturity date of that Term Obligation, and the amount required to be redeemed in any year shall be equal to the principal amount for such year set forth in the serial maturity schedule above. Term Obligations to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par and shall be selected by lot from the Term Obligations then subject to redemption. The City, at its option, may credit against any mandatory sinking fund redemption requirement Term Obligations of the maturity then subject to redemption which have been purchased and canceled by the City or have been redeemed and not theretofore applied as a credit against any mandatory sinking fund redemption requirement.

SEE MATURITY SCHEDULE, INTEREST RATES, AND YIELDS ON INSIDE COVER

The Obligations are payable from ad valorem taxes levied against all taxable property in the City, within the legal limits prescribed by law. The Certificates are additionally payable from a pledge of \$1,000 of the surplus revenues of the City's combined utility system revenues (see "THE OBLIGATIONS – SECURITY AND SOURCE OF PAYMENT," and "TAX RATE LIMITATIONS").

The Obligations are offered for delivery, when issued, and received by the Initial Purchaser thereof and subject to the opinion of the Attorney General of the State of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel for the City (see "APPENDIX C – FORM OF OPINIONS OF BOND COUNSEL"). It is expected that the Obligations will be available for delivery through the services of DTC on or about July 9, 2003.

**BIDS WILL BE ACCEPTED UNTIL AND OPENED ON
THURSDAY, JUNE 12, 2003 AT 10:00 A.M. CENTRAL DAYLIGHT SAVINGS TIME**

MATURITY SCHEDULES, INTEREST RATES AND YIELDS

General Obligation Bonds, Series 2003

Due Feb 15 ⁽¹⁾	CUSIP ⁽²⁾	Principal	Interest Rate	Yield	Due Feb 15 ⁽¹⁾	CUSIP ⁽²⁾	Principal	Interest Rate
2005		\$ 155,000	%	%	2015 ⁽³⁾		\$ 255,000	%
2006		165,000			2016 ⁽³⁾		270,000	
2007		170,000			2017 ⁽³⁾		280,000	
2008		180,000			2018 ⁽³⁾		295,000	
2009		190,000			2019 ⁽³⁾		310,000	
2010		200,000			2020 ⁽³⁾		330,000	
2011		210,000			2021 ⁽³⁾		345,000	
2012		220,000			2022 ⁽³⁾		360,000	
2013		230,000			2023 ⁽³⁾		380,000	
2014 ⁽³⁾		245,000						

(Accrued Interest from July 1, 2003 to be added)

Certificates of Obligation, Series 2003A

Due Feb 15 ⁽¹⁾	CUSIP ⁽²⁾	Principal	Interest Rate	Yield	Due Feb 15 ⁽¹⁾	CUSIP ⁽²⁾	Principal	Interest Rate
2005		\$ 30,000	%	%	2015 ⁽³⁾		\$ 40,000	%
2006		30,000			2016 ⁽³⁾		40,000	
2007		30,000			2017 ⁽³⁾		45,000	
2008		30,000			2018 ⁽³⁾		45,000	
2009		35,000			2019 ⁽³⁾		50,000	
2010		35,000			2020 ⁽³⁾		50,000	
2011		35,000			2021 ⁽³⁾		55,000	
2012		35,000			2022 ⁽³⁾		55,000	
2013		40,000			2023 ⁽³⁾		60,000	
2014 ⁽³⁾		40,000						

(Accrued Interest from July 1, 2003 to be added)

- (1) The Initial Purchaser may designate one or more of the serial maturities as term obligations. See accompanying "Notice of Sale and Bidding Instructions."
- (2) CUSIP Numbers have been assigned to the Obligations by the CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Obligations. Neither the City, the Financial Advisor nor the Initial Purchasers shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (3) The City reserves the right, at its option, to redeem Obligations having stated maturities on and after February 15, 2014, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2013, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, as amended and in effect on the date hereof, this document constitutes a Preliminary Official Statement of the City with respect to the Obligations that has been deemed “final” by the City as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

This Official Statement, which includes the cover page and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon.

The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described.

In Connection with this offering, the Initial Purchaser may over-allot or effect transactions which stabilize the market price of the issue at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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The cover page hereof, this page, the appendices included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Obligations to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

THE CITY	The City of College Station, Texas (the “City”) is a political subdivision and a home-rule city of the State, located in Brazos County, Texas. The City covers approximately 41 square miles (see “INTRODUCTION - DESCRIPTION OF CITY”).
THE BONDS	The Bonds are issued as \$4,790,000 City of College Station, Texas, General Obligation Bonds, Series 2003. The Bonds are issued as serial bonds maturing February 15, 2005 through February 15, 2023, inclusive, unless the Initial Purchaser designates one or more maturities as a Term Bond. (see “THE OBLIGATIONS - GENERAL DESCRIPTION”).
THE CERTIFICATES	The Certificates are issued as \$780,000 City of College Station, Texas, Certificates of Obligation, Series 2003A. The Certificates are issued as serial certificates maturing February 15, 2005 through February 15, 2023, inclusive, unless the Initial Purchaser designates one or more maturities as a Term Certificates. (see “THE OBLIGATIONS - GENERAL DESCRIPTION”).
PAYMENT OF INTEREST	Interest on the Obligations accrues from July 1, 2003, and is payable February 15, 2003, and each August 15 and February 15 thereafter until maturity or prior redemption (see “THE OBLIGATIONS - GENERAL DESCRIPTION”).
AUTHORITY FOR ISSUANCE.	The Bonds are issued pursuant to the general laws of the State, particularly Chapter 1331, Texas Government Code, and an ordinance passed by the City Council of the City. The Certificates are issued pursuant to the general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended; Chapter 1502, as amended, Texas Government Code and an ordinance passed by the City Council of the City (see “THE OBLIGATIONS - AUTHORITY FOR ISSUANCE”).
SECURITY FOR THE BONDS.....	The Bonds constitute direct obligations of the City, payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within the City (see “THE OBLIGATIONS - SECURITY AND SOURCE OF PAYMENT”).
SECURITY FOR THE CERTIFICATES.....	The Certificates constitute direct obligations of the City, payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within the City and (ii) a subordinate lien on and pledge of \$1,000 of the surplus revenues derived from the City’s combined utility system revenues (see “THE OBLIGATIONS - SECURITY AND SOURCE OF PAYMENT”).
OPTIONAL REDEMPTION.....	The City reserves the right, at its option, to redeem Obligations having stated maturities on and after February 15, 2014, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2013, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE OBLIGATIONS – OPTIONAL REDEMPTION”). Additionally, the Obligations may be subject to mandatory redemption in the event the Initial Purchasers elect to aggregate one or more maturities as a term bond. (See “THE OBLIGATIONS – MANDATORY SINKING FUND REDEMPTION.”)
TAX EXEMPTION.....	In the opinion of Bond Counsel, the interest on the Obligations will be excludable from gross income for federal income tax purposes under existing law and the Obligations are not private activity bonds. The Obligations will not be designated as “Qualified Tax-Exempt Obligations” for financial institutions. See “TAX MATTERS” for a discussion of the opinion of Bond Counsel, including a description of the alternative minimum tax consequences for corporations.
USE OF BOND PROCEEDS.....	Proceeds from the sale of the Bonds will be used to pay for the cost of (1) construction of a fire station and (2) construction and acquisition of and improvements to, City streets, traffic control systems and sidewalks, (3) acquire drainage areas for greenways and (4) to pay the costs incurred in connection with the issuance of the Bonds (see “PLAN OF FINANCING - USE OF PROCEEDS”).
USE OF CERTIFICATE PROCEEDS.....	Proceeds from the sale of the Certificates will be used to pay for the cost of (1) construction and acquisition of and improvements to, City streets and traffic control systems and (2) to pay the costs incurred in connection with the issuance of the Bonds (see “PLAN OF FINANCING - USE OF PROCEEDS”).

RATINGS The presently outstanding tax supported debt of the City is rated “Aa3” by Moody's Investors Service, Inc. (“Moody's”) and “AA–” by Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. (“S&P”). The City also has other issues outstanding which are rated “Aaa” by Moody’s and “AAA” by S&P through insurance by various commercial insurance companies. Applications for ratings on the Obligations have been made to Moody’s and S&P (see “OTHER INFORMATION – RATINGS”).

BOOK-ENTRY-ONLY SYSTEM..... The definitive Obligations will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Obligations may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Obligations will be made to the beneficial owners thereof. Principal of and interest on the Obligations will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Obligations (see “THE OBLIGATIONS - BOOK-ENTRY-ONLY SYSTEM”).

PAYMENT RECORD..... The City has never defaulted in payment of its general obligation tax debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Per Capita Taxable Assessed Valuation	Ad Valorem Tax Debt ⁽³⁾	Per Capita Ad Valorem Tax Debt	Ratio Tax Debt to Taxable Assessed Valuation	Percent Total Collection ⁽³⁾
1998	63,130	\$ 1,820,048,058	\$ 28,830	\$ 35,270,000	\$ 559	1.94%	99.74%
1999	66,200	1,928,970,462	29,139	39,505,000	597	2.05%	99.17%
2000	68,038	2,194,620,399	32,256	56,655,000	833	2.58%	98.31%
2001	70,075	2,315,362,362	33,041	59,970,000	856	2.59%	100.10%
2002	70,308	2,489,560,083	35,409	74,945,000	1,066	3.01%	100.03%
2003	72,500	2,723,565,453	37,566	75,695,000 ⁽⁴⁾	1,044 ⁽⁴⁾	2.78% ⁽⁴⁾	⁽⁵⁾

(1) Source: The City.

(2) As reported by the Brazos County Appraisal District; subject to change during the ensuing year.

(3) Payable from ad valorem taxes.

(4) Projected, includes the Obligations.

(5) In process of collection.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	For Fiscal Year Ended September 30 ⁽¹⁾				
	2002	2001	2000	1999	1998
Beginning Balance	\$ 9,432,700	\$ 8,428,183	\$ 7,809,532	\$ 7,259,196	\$ 7,661,268
Total Revenue	26,269,679	24,355,204	22,732,090	20,733,466	19,433,566
Total Expenditures	31,675,353	28,806,157	26,977,251	24,849,104	22,786,596
Other Financing Sources (Uses)	6,084,199	5,455,470	4,863,812	4,665,973	2,950,958
Ending Balance	<u>\$10,111,225</u>	<u>\$ 9,432,700</u>	<u>\$ 8,428,183</u>	<u>\$ 7,809,531</u>	<u>\$ 7,259,196</u>

(1) The City's financial policies are for a General Fund balance of 15% of budgeted appropriations at year end. To the extent that the General Fund balance exceeds this amount, this surplus may be expended in future years for one time expenditures such as capital items and short term projects.

UTILITY SYSTEM CONDENSED STATEMENT OF OPERATIONS

	For Fiscal Year Ended September 30				
	2002	2001	2000	1999	1998
Revenues:					
Electric	\$ 44,238,340	\$ 42,290,635	\$ 35,295,718	\$ 32,561,234	\$ 33,257,006
Water and Wastewater	16,024,595	15,118,463	15,696,095	14,276,533	14,198,325
Interest	1,858,545	2,787,779	2,467,905	1,568,912	2,032,895
Other	1,974,507	1,734,798	1,940,771	2,263,337	2,510,885
Total Revenues	<u>\$ 64,095,987</u>	<u>\$ 61,931,675</u>	<u>\$ 55,400,489</u>	<u>\$ 50,670,016</u>	<u>\$ 51,999,111</u>
Expenses:					
Total Expenses	<u>\$ 46,274,555</u>	<u>\$ 45,465,778</u>	<u>\$ 37,149,229</u>	<u>\$ 30,080,145</u>	<u>\$ 27,885,854</u>
Net Available for Debt Service	<u>\$ 17,821,432</u>	<u>\$ 16,465,897</u>	<u>\$ 18,251,260</u>	<u>\$ 20,589,871</u>	<u>\$ 24,113,257</u>

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Position	Length of Service	Term Expires	Occupation
Ron Silvia	Mayor	5 Years ⁽¹⁾	5/04	Retired
Anne Hazen	Mayor Pro-Tem	5 Years	5/04	Retired R.N.
John Happ	Councilmember	1 Year	5/05	Airport Director
Dennis Maloney	Councilmember	4 Years	5/05	Painting Contractor
James Massey	Councilmember	4 Years	5/05	Director of Facility Coordination
Scott Mears	Councilmember	1 Year	5/04	Director of Support Services
Robert Waring	Councilmember	0 Years	5/05	Vice President, Investments

⁽¹⁾ Elected Mayor in May 2002.

SELECTED ADMINISTRATIVE STAFF

Name	Position	Length of Service To City
Thomas E. Brymer	City Manager	15 Years ⁽¹⁾
Glen Brown	Assistant City Manager	3 Years
John C. Woody	Director of Public Utilities	16 Years
Charles Cryan	Director of Fiscal Services	12 Years
Jeff Kersten	Budget Manager	11 Years
Connie L. Hooks	City Secretary	17 Years

⁽¹⁾ City Manager since September 1999.

CONSULTANTS AND ADVISORS

AuditorsIngram, Wallis & Company
Bryan, Texas

Bond Counsel.....McCall, Parkhurst & Horton L.L.P.
Dallas, Texas

Financial Advisor.....First Southwest Company
Houston, Texas

For additional information regarding the City, please contact:

Charles Cryan Director of Fiscal Services City of College Station 1101 Texas Avenue College Station, Texas 77840 (979) 764-3552 Phone (979) 764-3899 Fax	or	Drew Masterson First Southwest Company 1021 Main Street, Suite 2200 Houston, Texas 77002 (713) 651-9850 Phone (713) 654-8658 Fax
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PRELIMINARY OFFICIAL STATEMENT

RELATING TO

CITY OF COLLEGE STATION, TEXAS
(a Home-Rule City located in Brazos County, Texas)

\$4,790,000
GENERAL OBLIGATION BONDS
SERIES 2003

\$780,000
CERTIFICATES OF OBLIGATION
SERIES 2003A

INTRODUCTION

This Official Statement, which includes the cover pages and Appendices hereto, provides certain information regarding the issuance of the City of College Station, Texas, General Obligation Bonds, Series 2003 (the "Bonds") and the City of College Station, Texas, Certificates of Obligation, Series 2003A (the "Certificates"). The Bonds and the Certificates are referred to herein collectively as the "Obligations." Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinances authorizing the issuance of the Obligations (the "Ordinances") to be adopted on the date of sale of the Obligations, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Obligations and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, First Southwest Company, Houston, Texas.

DESCRIPTION OF THE CITY . . . The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in October 1938, and first adopted its Home Rule Charter in October 1938, which was last amended in May 1992. The City operates under a Council/City Manager form of government with a City Council comprised of the Mayor and six Councilmembers. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, electric, water and sanitary sewer utilities, health and social services, culture-recreation, public transportation, public improvements, planning and zoning, and general administrative services. The 1990 Census population for the City was 52,456 and the 2000 Census population was 67,890. The City covers approximately 41 square miles.

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the Bonds will be used to pay for the cost of (1) construction of a fire station and (2) construction and acquisition of and improvements to, City streets, traffic control systems and sidewalks, acquire drainage areas for greenways and (4) to pay the costs incurred in connection with the issuance of the Bonds (see "USE OF PROCEEDS")

Proceeds from the sale of the Certificates will be used to pay for the cost of (1) construction and acquisition of and improvements to, City streets and traffic control systems and (2) to pay the costs incurred in connection with the issuance of the Bonds (see "USE OF PROCEEDS")

USE OF PROCEEDS . . .

The proceeds from the sale of the Bonds will be applied approximately as follows:

Deposit to Project Fund	\$ 0
Deposit to Interest and Sinking Fund	
Costs of Issuance	
Total Uses of Funds	<u>\$ 0</u>

Proceeds from the sale of the Certificates will be applied approximately as follows:

Deposit to Project Fund	\$ 0
Deposit to Interest and Sinking Fund	
Costs of Issuance	
Total Uses of Funds	<u>\$ 0</u>

THE OBLIGATIONS

GENERAL DESCRIPTION. . . The Obligations are dated July 1, 2003, and mature on February 15 in each of the years and in the amounts shown on the inside cover page hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15, 2004 and on each August 15 and February 15 thereafter until maturity or prior redemption. The definitive Obligations will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Obligations will be made to the owners thereof.** Principal of and interest on the Obligations will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Obligations (see "BOOK-ENTRY-ONLY SYSTEM").

AUTHORITY FOR ISSUANCE OF THE BONDS. . . . The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1331, Texas Government Code, as amended; an election held November 3, 1998, and passed by a majority of the participating voters; and an ordinance passed by the City Council.

AUTHORITY FOR ISSUANCE OF THE CERTIFICATES. . . . The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), as amended, and an ordinance passed by the City Council.

SECURITY AND SOURCE OF PAYMENT. . . . All taxable property within the City is subject to a continuing direct annual ad valorem tax levied by the City sufficient to provide for the payment of principal of and interest on all obligations (such as the Obligations) payable in whole or in part from ad valorem taxes, which tax must be levied within limits prescribed by law.

The City intends to pay the Obligations from ad valorem tax proceeds; however, the Certificates are also payable from and secured by a limited pledge of \$1,000 of the surplus revenues derived from the City's combined utility system revenues, as provided in the Ordinances, in order to meet the legal requirements for the sale thereof for cash.

TAX RATE LIMITATION. . . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 Taxable Assessed Valuation for all City purposes. The Home Rule Charter of the City adopts the constitutionally authorized maximum tax rate of \$2.50 per \$100 Taxable Assessed Valuation. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all debt service for obligations payable from ad valorem taxes, as calculated at the time of issuance.

OPTIONAL REDEMPTION. . . . The City reserves the right, at its option, to redeem Obligations of either series having stated maturities on and after February 15, 2014, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2013, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Obligations are to be redeemed, the City shall determine the Obligations, or portions thereof, within such maturity to be redeemed. If an Obligation (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Obligation (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

MANDATORY SINKING FUND REDEMPTION. . . . In addition to the foregoing optional redemption provision, if principal amounts designated in the serial maturity schedules above are combined to create Term Obligations, each such Term Obligation shall be subject to mandatory sinking fund redemption commencing on February 15 of the first year which has been combined to form such Term Obligation and continuing on February 15 in each year thereafter until the stated maturity date of that Term Obligation, and the amount required to be redeemed in any year shall be equal to the principal amount for such year set forth in the Maturity Schedules herein. Term Obligations to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par and shall be selected by lot from the Term Obligations then subject to redemption. The City, at its option, may credit against any mandatory sinking fund redemption requirement Term Obligations of the maturity then subject to redemption which have been purchased and canceled by the City or have been redeemed and not theretofore applied as a credit against any mandatory sinking fund redemption requirement.

NOTICE OF REDEMPTION. . . . Not less than 30 days prior to a redemption date for the Obligations, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Obligations to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE OBLIGATIONS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY OBLIGATION OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH OBLIGATION OR PORTION THEREOF SHALL CEASE TO ACCRUE.

BOOK ENTRY ONLY SYSTEM . . . *This section describes how ownership of the Obligations is to be transferred and how the principal of and interest on the Obligations are to be paid to and credited by the Depository Trust Company (“DTC”) while the Obligations are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Obligations, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Obligations), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Obligations. The Obligations will be issued as fully-registered securities in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate for each maturity will be issued for the Obligations, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 55 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of Obligations. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Obligations under the DTC system must be made by or through Direct Participants, which will receive a credit for the Obligations on DTC’s records. The ownership interest of each actual purchaser of each Obligation (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Obligations are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Obligations representing their ownership interests in Obligations, except in the event that use of the book-entry system for the Obligations is discontinued.

To facilitate subsequent transfers, all Obligations deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Obligations with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Obligations; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Obligations are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Obligations may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Obligations, such as redemptions, tenders, defaults, and proposed amendments to the Obligation documents. For example, Beneficial Owners of Obligations may wish to ascertain that the nominee holding the Obligations for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Obligations unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Obligations are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Obligations will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City and the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City and the Paying Agent/Registrar. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and reimbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Obligations at any time by giving reasonable notice to the City and the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Obligations are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Obligations will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement. In reading this Official Statement it should be understood that while the Obligations are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Obligations, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinances will be given only to DTC.

Information concerning DTC and the Book-Entry System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City or the Underwriters.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar for each series of the Obligations is JPMorgan Chase Bank, Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Obligations are duly paid and any successor Paying Agent/Registrar must be a bank, trust company, financial institution, or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Obligations. Upon any change in the Paying Agent/Registrar for the Obligations, the City will promptly cause a written notice thereof to be sent to each registered owner of the Obligations by United States mail, first-class, postage prepaid, which notice will also include the address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, the Obligations may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar and such transfer or exchange will be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Obligations may be assigned by the execution of an assignment form on the respective Obligations or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Obligations will be delivered by the Paying Agent/Registrar, in lieu of the Obligations being transferred or exchanged, at the corporate trust office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Obligations issued in an exchange or transfer of Obligations will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Obligations to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Obligations registered and delivered in an exchange or transfer will be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Obligations surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Obligations. Neither the City nor the Paying Agent/Registrar will be required to transfer or exchange any Obligation called for redemption, in whole or in part, within 30 days of the date fixed for redemption; provided, however, such limitation of transfer will not be applicable to an exchange by the registered owner of the uncalled balance of a Obligation.

RECORD DATE FOR INTEREST PAYMENT . . . The record date (“Record Date”) for determining the person to whom the interest is payable on the Obligations on any interest payment date means the close of business on the last business day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a “Special Record Date”) will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (a “Special Payment Date,” which will be 15 days after the Special Record Date) will be sent at least five days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each Holder of a Obligation appearing on the registration books of the Paying Agent/Registrar at the close of business on the day next preceding the date of mailing of such notice.

DEFEASANCE . . . The Ordinances provide for the defeasance of the Obligations when the payment of the principal of and premium, if any, on the Obligations, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agency, in trust (1) money sufficient to make such payment or (2) Defeasance Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Obligations. The Ordinances provides that “Defeasance Securities” means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The City has additionally reserved the right, subject to satisfying the requirement of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvestment the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

REMEDIES OF HOLDERS OF OBLIGATIONS. . . The Ordinances do not establish specific events of default with respect to the Obligations, and there is no right to the acceleration of maturity of the Obligations upon the failure of the City to observe any covenant under the Ordinances. Although a registered owner of the Obligations could presumably obtain a judgment against the City if a default occurred in the payment of principal of or interest on any such Obligations, such judgment could not be satisfied by execution against any property of the City. Such registered owner’s only practical remedy, if a default occurs, is a mandamus proceeding to compel the City to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Obligations as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. The Ordinances do not provide for the appointment of a trustee to represent the interests of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinances, or upon any other condition. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of special revenues, the pledge of taxes and other general revenue in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinances and the Obligations are qualified with respect to the customary rights of debtors relative to their creditors.

TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the City is the responsibility of the Brazos County Appraisal District (the “Appraisal District”). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under Title 1, Texas Tax Code (referred to herein as the “Property Tax Code”) to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

Reference is made to the Property Tax Code, for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the State Constitution (“Article VIII”) and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant: (1) An exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older; (2) An exemption to the disabled from all ad valorem taxes thereafter levied by the political subdivision; and (3) An exemption of up to 20% of the market value of residence homesteads. The minimum exemption under this provision is \$5,000.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1.

Nonbusiness personal property, such as automobiles or light trucks, are exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation.

Article VIII, Section 1-j, provides for “freeport property” to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

The City and the other taxing bodies within its territory may agree to jointly create tax increment financing zones within the City, under which the tax values on property in the zone are “frozen” at the value of the property at the time of creation of the zone. The City also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . . By the later of September 30th or 60 days after the certified appraisal roll is delivered to the City, the City Council adopts a tax rate per \$100 taxable value for the current year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Property Tax Code, the City must annually calculate and publicize its “effective tax rate” and “rollback tax rate”. The City Council may not adopt a tax rate that provides more revenue than the previous year’s tax rate until it has held a public hearing on the proposed increase following notice to the taxpayers and otherwise complied with the Property Tax Code. If the adopted tax rate exceeds the rollback tax rate the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

“Rollback tax rate” means the rate that will produce last year’s maintenance and operation tax levy (adjusted) from this year’s values (adjusted) multiplied by 1.08 plus a rate that will produce this year’s debt service from this year’s values (unadjusted) divided by the anticipated tax collection rate.

The Property Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

PROPERTY ASSESSMENT AND TAX PAYMENT . . . Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 15 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due before February 15 of each year and the final installment due before August 15.

PENALTIES AND INTEREST . . . Charges for penalties and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty	Cumulative Interest	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	18

After July, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, an amount up to 20% attorney's collection fee is added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

CITY APPLICATION OF PROPERTY TAX CODE . . . The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$30,000. The City has not granted an additional exemption of 20% of the market value of residence homesteads. Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt. The City does not tax nonbusiness personal property. The City does not permit split payments, and discounts are not allowed. The City does collect the additional one-half cent sales tax for reduction of ad valorem taxes. The City has adopted a tax abatement policy (see "TAX INFORMATION - TAX ABATEMENT POLICY"). Brazos County collects the taxes for the City.

TAX ABATEMENT POLICY . . . The City has established a tax abatement program to encourage economic development. In order to be considered for tax abatement, a project must meet several criteria pertaining to job creation and property value enhancement. The value of property subject to abatement is shown in Table 1 below.

All applications must meet the following general criteria before being considered for tax abatement.

1. The project expands the local tax base.
2. The project creates permanent full time employment.
3. The project would not otherwise be developed.
4. The project makes a contribution to enhancing further economic development.
5. The project must remain in good standing to all aesthetic and environmental concerns.
6. The project has not been started and no construction has commenced at the time the application is approved.
7. The project must not have any of the following objections:
 - I. there would be substantial adverse affect on the provision of government service or tax base,
 - II. the applicant has insufficient financial capacity,
 - III. planned or potential use of the property would constitute a hazard to public safety,
 - IV. planned or potential use of the property would give adverse impacts to adjacent properties, or
 - V. any violation of laws of the United States or State of Texas or ordinances of the City of College Station would result.

If the project in the application meets the general criteria, is a facility of a targeted enterprise, and has a capital cost that exceeds \$250,000, then abatement of any or all of the increased value will be considered. In no case would tax abatement exceed the maximum allowed by State law, presently 100% for ten years. Factors to consider in determining the portion of the increased value to be abated and the duration of the abatement agreement include, but are not limited to:

- Total amount of the increased value;
- Total number of jobs created;
- Type of jobs created;
- Dollar value of payroll created; and
- Other municipal costs and revenues associated with the application.

TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2002/03 Market Valuation Established by Brazos County Appraisal District (excluding exempt property)		\$ 2,835,163,908
Less Exemptions/Reductions at 100% Market Value:		
Over 65 Homestead and Veterans Exemptions	\$ 42,890,060	
Homestead Cap Adjustment	861,812	
House Bill 366 ⁽¹⁾	95,873	
Agricultural Land Use/Timber Productivity Loss	32,451,400	
Abatements	28,600,746	
Proration	167,053	
Freeport	6,531,511	111,598,455
2002/03 Taxable Assessed Valuation		\$ 2,723,565,453
Debt Payable from Ad Valorem Taxes (as of 11-15-02)		
General Obligation and Refunding Bonds, Series 1991	\$ 975,000	
Public Improvement and Refunding General Obligation Bonds, Series 1994	3,350,000	
General Obligation Bonds, Series 1995	3,500,000	
General Obligation and Refunding Bonds, Series 1996	6,275,000	
Combination Tax and Revenue Certificates of Obligation, Series 1998	4,890,000	
General Obligation Improvement Bonds, Series 1998	5,515,000	
General Obligation Improvement Bonds, Series 1999	5,595,000	
Combination Tax and Revenue Certificates of Obligation, Series 2000	3,445,000	
General Obligation Improvement Bonds, Series 2000	7,210,000	
Combination Tax and Revenue Certificates of Obligation, Series 2000A	7,300,000	
Certificates of Obligation, Series 2001	3,165,000	
General Obligation Improvement Bonds, Series 2001	2,800,000	
Certificates of Obligation, Series 2002	14,480,000	
General Obligation Improvement Bonds, Series 2002	6,445,000	
Certificates of Obligation, Series 2003	1,000,000	
The Bonds	4,790,000	
The Certificates	780,000	81,515,000
Less: Interest and Sinking Fund as of 9-30-02		2,376,726
Net Debt Payable from Ad Valorem Taxes		\$ 79,138,274
Ratio of Ad Valorem Tax Debt to Taxable Assessed Valuation		2.91%

2003 Estimated Population - 72,500
Per Capita Taxable Assessed Valuation - \$37,566
Per Capita Funded Debt - \$1,092

(1) HB 366 was passed by the 74th Legislature and exempts personal property and minerals that have an aggregate value of less than \$500.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value, Fiscal Year Ending September 30					
	2003		2002		2001	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 1,305,123,758	46.03%	\$ 1,165,793,808	44.85%	\$ 1,054,789,945	43.52%
Real, Residential, Multi-Family	543,671,950	19.18%	498,169,190	19.16%	456,684,815	18.84%
Real, Vacant Lots/Tracts	61,488,980	2.17%	57,943,080	2.23%	62,976,900	2.60%
Real, Acreage (Land Only)	58,043,010	2.05%	54,600,810	2.10%	50,447,630	2.08%
Real, Farm and Ranch Improvements	5,627,110	0.20%	5,276,590	0.20%	4,980,990	0.21%
Real, Commercial/Industrial	567,471,371	20.02%	532,716,948	20.49%	507,145,636	20.92%
Real, Oil, Gas & Other Mineral Reserves	2,889,430	0.10%	3,973,620	0.15%	2,793,790	0.12%
Real and Tangible Personal, Utilities	44,621,630	1.57%	52,024,755	2.00%	53,962,443	2.23%
Tangible Personal, Business	229,678,206	8.10%	218,475,628	8.40%	220,180,971	9.08%
Tangible Personal, Other	3,589,940	0.13%	3,637,130	0.14%	3,378,370	0.14%
Real Property Inventory	7,051,743	0.25%	1,627,310	0.06%	1,149,470	0.05%
Special Inventory	5,906,780	0.21%	5,349,810	0.21%	5,328,370	0.22%
Total Appraised Value Before Exemptions	\$ 2,835,163,908	100.00%	\$ 2,599,588,679	100.00%	\$ 2,423,819,330	100.00%
Less: Total Exemptions/Reductions	111,598,455		110,028,596		108,456,968	
Taxable Assessed Value	<u>\$ 2,723,565,453</u>		<u>\$ 2,489,560,083</u>		<u>\$ 2,315,362,362</u>	

Category	Taxable Appraised Value, Fiscal Year Ending September 30			
	2000		1999	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 981,497,987	43.11%	\$ 875,401,055	44.01%
Real, Residential, Multi-Family	405,119,446	17.79%	355,913,511	17.89%
Real, Vacant Lots/Tracts	42,899,010	1.88%	43,467,460	2.19%
Real, Acreage (Land Only)	87,589,705	3.85%	49,488,875	2.49%
Real, Farm and Ranch Improvements	4,930,640	0.22%	5,705,430	0.29%
Real, Commercial/Industrial	483,242,890	21.22%	415,066,553	20.87%
Real, Oil, Gas & Other Mineral Reserves	2,234,980	0.10%	4,869,590	0.24%
Real and Tangible Personal, Utilities	55,736,000	2.45%	44,954,780	2.26%
Tangible Personal, Business	208,786,573	9.17%	190,348,447	9.57%
Tangible Personal, Mobile Home	3,007,110	0.13%	2,630,420	0.13%
Tangible Personal, Other	1,848,780	0.08%	1,365,330	0.07%
Real Property Inventory		0.00%		0.00%
Total Appraised Value Before Exemptions	\$ 2,276,893,121	100.00%	\$ 1,989,211,451	100.00%
Less: Total Exemptions/Reductions	82,272,722		60,240,989	
Taxable Assessed Value	<u>\$ 2,194,620,399</u>		<u>\$ 1,928,970,462</u>	

NOTE: Valuations shown are certified taxable assessed values reported by the Brazos County Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End of Year	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
1998	63,130	\$ 1,820,048,058	28,830	\$ 35,270,000	1.94%	559
1999	66,200	1,928,970,462	29,139	39,505,000	2.05%	597
2000	68,038	2,194,620,399	32,256	56,655,000	2.58%	833
2001	70,075	2,315,362,362	33,041	59,970,000	2.59%	856
2002	70,308	2,489,560,083	35,409	74,945,000	3.01%	1,066
2003	72,500	2,723,565,453	37,566	75,695,000 ⁽³⁾	2.78% ⁽³⁾	1,044 ⁽³⁾

(1) Source: The City.

(2) As reported by the Brazos County Appraisal District; subject to change during the ensuing year.

(3) Projected, includes the Obligations.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
1998	\$ 0.4293	\$ 0.1516	\$ 0.2777	\$ 7,758,131	99.10%	99.74%
1999	0.4293	0.1618	0.2675	8,292,212	98.46%	99.17%
2000	0.4293	0.1631	0.2662	9,068,352	97.78%	98.31%
2001	0.4293	0.1662	0.2631	9,939,951	99.00%	100.10%
2002	0.4777	0.1846	0.2931	11,892,629	99.36%	100.03%
2003	0.4777	0.1946	0.2831	13,010,472	⁽¹⁾	⁽¹⁾

(1) In process of collection.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2002/03 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
CBL & Associates	Retail Mall	\$ 48,629,050	1.79%
W9/JP-M Real Estate Ltd.	Housing	39,372,000	1.45%
Verizon Communications, Inc.	Telephone Utility	35,913,250	1.32%
Universal Computer Services Inc.	Computer Hardware/Software	31,665,535	1.16%
Alkosser, David	Housing	30,961,300	1.14%
College Station Hospital L.P.	Medical	25,402,560	0.93%
Melrose Apartments	Housing	21,799,500	0.80%
Wal-Mart Stores East Inc.	Retail	21,412,710	0.79%
College Station Exchange, LP	Housing	18,800,000	0.69%
301 Church Avenue L.P.	Housing	17,000,000	0.62%
		<u>\$ 290,955,905</u>	<u>10.68%</u>

GENERAL OBLIGATION DEBT LIMITATION . . . No general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter (see "THE OBLIGATIONS - TAX RATE LIMITATION").

TABLE 6 - TAX ADEQUACY

Maximum Principal and Interest Requirements (2003)	\$ 9,467,528.33 ⁽¹⁾
\$0.35837 Tax Rate at 97% Collection Produces	9,467,554.75
Average Principal and Interest Requirements (2003-2023).....	\$ 5,839,931.57 ⁽¹⁾
\$0.22105 Tax Rate at 97% Collection Produces	5,839,957.99

(1) Includes the Obligations. Interest on the Obligations has been estimated for the purpose of illustration.

TABLE 7 - ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax debt ("Tax Debt") was developed by the City from information obtained from the Brazos County Appraisal District. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

	2001/02 Taxable Assessed Value ⁽¹⁾	2001/02 Tax Rate	Total Tax Debt	Estimated % Applicable	City's Overlapping Tax Debt as of 11-15-02	Authorized But Unissued Tax Debt as of 11-15-02
City of College Station	\$ 2,723,565,453	\$ 0.4777	\$ 81,515,000 ⁽²⁾	100.00%	\$ 81,515,000	\$ 2,055,000
Brazos County	5,804,583,559	0.4146	26,015,000	46.21%	12,021,532	10,510,000
Bryan ISD	2,545,489,736	1.6680	66,022,357	5.17%	3,413,356	0
College Station ISD	2,747,371,751	1.7900	61,922,353	83.48%	51,692,780	14,000,000
Total Direct and Overlapping Funded Tax Debt					\$ 148,642,668	
Ratio of Direct and Overlapping Funded Tax Debt to Taxable Assessed Valuation					5.46%	
Per Capita Overlapping Funded Tax Debt					2,185	

Source: Municipal Advisory Council of Texas.

(1) Taxable Assessed Valuation for Fiscal Year 2003.

(2) Projected, includes the Obligations.

DEBT INFORMATION

TABLE 8 - PRO-FORMA AD VALOREM TAX DEBT SERVICE REQUIREMENTS

Year End 9/30	Total Outstanding Debt	The Bonds			The Certificates			Total Debt Service Requirements
		Principal	Interest	Total	Principal	Interest	Total	
2003	\$ 9,467,528							\$ 9,467,528
2004	9,024,259		\$ 268,772	\$ 268,772		\$ 34,298	\$ 34,298	9,327,329
2005	8,429,924	\$ 155,000	235,625	390,625	\$ 30,000	30,312	60,312	8,880,861
2006	7,485,003	165,000	227,625	392,625	30,000	29,771	59,771	7,937,399
2007	7,048,268	170,000	219,250	389,250	30,000	29,121	59,121	7,496,639
2008	6,755,036	180,000	210,500	390,500	30,000	28,347	58,347	7,203,883
2009	6,137,490	190,000	201,250	391,250	35,000	27,398	62,398	6,591,138
2010	6,155,449	200,000	191,500	391,500	35,000	26,252	61,252	6,608,201
2011	6,122,481	210,000	181,250	391,250	35,000	25,002	60,002	6,573,733
2012	6,078,890	220,000	170,500	390,500	35,000	23,707	58,707	6,528,097
2013	5,805,994	230,000	159,250	389,250	40,000	22,273	62,273	6,257,517
2014	5,445,966	245,000	147,375	392,375	40,000	20,693	60,693	5,899,034
2015	5,177,851	255,000	134,875	389,875	40,000	19,065	59,065	5,626,791
2016	4,813,624	270,000	121,750	391,750	40,000	17,397	57,397	5,262,771
2017	4,827,159	280,000	108,000	388,000	45,000	15,583	60,583	5,275,742
2018	3,058,378	295,000	93,625	388,625	45,000	13,621	58,621	3,505,624
2019	2,126,163	310,000	78,500	388,500	50,000	11,502	61,502	2,576,164
2020	2,122,931	330,000	62,500	392,500	50,000	9,227	59,227	2,574,658
2021	492,300	345,000	45,625	390,625	55,000	6,795	61,795	944,720
2022		360,000	28,000	388,000	55,000	4,204	59,204	447,204
2023		380,000	9,500	389,500	60,000	1,449	61,449	450,949
	<u>\$ 106,574,693</u>	<u>\$ 4,790,000</u>	<u>\$ 2,895,272</u>	<u>\$ 7,685,272</u>	<u>\$ 780,000</u>	<u>\$ 396,015</u>	<u>\$ 1,176,015</u>	<u>\$ 115,435,981</u>
Average Annual Debt Service Requirement (2003-2023)								\$ 5,839,932
Maximum Annual Debt Service Requirement (2003)								\$ 9,467,528

(1) Interest on the Obligations has been estimated for purpose of illustration.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Ad Valorem Tax Debt Service Requirements, Fiscal Year Ending September 30, 2003		\$ 9,467,528
Interest and Sinking Fund, September 30, 2002	\$ 2,376,726	
Interest and Sinking Fund Tax Levy @ 98% Collection	7,556,206	
Budgeted Investment Earnings	100,000	
Budgeted Transfers	<u>958,500</u>	<u>10,991,432</u>
Estimated Balance, September 30, 2003		\$ 1,523,903

TABLE 10 - AUTHORIZED BUT UNISSUED TAX BONDS

<u>Date of Authorization</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Issued To Date</u>	<u>The Bonds</u>	<u>Unissued</u>
1/24/1984	Fire Substation Building ⁽¹⁾	\$ 700,000	\$ 0	\$ 0	\$ 700,000
1/24/1984	Street Improvements ⁽¹⁾	6,325,000	5,825,000		500,000
11/3/1998	Street Improvements	8,539,000	7,566,000	973,000	0
11/3/1998	Traffic Management	2,980,000	2,260,000	720,000	0
11/3/1998	Fire Station Improvements	2,477,000	1,160,000	1,317,000	0
11/3/1998	City Facilities	1,835,000	1,055,000	780,000	0
11/3/1998	Park Improvements	4,769,000	4,769,000		0
11/3/1998	Drainage Improvements	3,640,000	1,785,000	1,000,000	855,000
		<u>\$ 31,265,000</u>	<u>\$ 24,420,000</u>	<u>\$ 4,790,000</u>	<u>\$ 2,055,000</u>

(1) Contain projects which may have been completed or abandoned; therefore, these Bonds are not likely to ever be issued.

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT . . . The City does anticipate the issuance of additional obligations payable from ad valorem taxes within the next 12 months.

OTHER OBLIGATIONS . . . As of September 30, 2002, the City has no outstanding capital leases or loans.

PENSION FUND . . . The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System ("TMRS"), a State-wide administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense. (For more detailed information concerning the retirement plan, see "APPENDIX B - EXCERPTS FROM THE CITY OF COLLEGE STATION, TEXAS ANNUAL FINANCIAL REPORT" - Note E.)

FINANCIAL INFORMATION

TABLE 11 - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	For Fiscal Year Ended September 30				
	2002	2001	2000	1999	1998
Revenues:					
Ad Valorem Taxes	\$ 4,555,346	\$ 3,813,167	\$ 3,420,720	\$ 3,139,361	\$ 2,737,905
City Sales Tax	13,648,835	13,031,079	12,759,591	11,662,546	10,912,466
Franchise Fees	1,714,241	1,644,625	1,577,815	1,523,736	1,610,444
Court Fines	2,225,354	1,796,203	1,393,505	1,208,499	1,233,604
Licenses, Permits, Certificates & Grants	870,636	779,159	680,776	643,968	577,032
Charges for Services	2,067,813	1,892,964	1,681,877	1,463,432	1,368,883
Other	1,187,454	1,398,007	1,217,806	1,091,924	993,232
Total Revenues	\$ 26,269,679	\$ 24,355,204	\$ 22,732,090	\$ 20,733,466	\$ 19,433,566
Expenditures:					
General Government	\$ 3,279,715	\$ 2,909,436	\$ 1,775,494	\$ 1,735,592	\$ 1,623,784
Fiscal Services	2,153,217	1,889,611	1,967,135	1,783,602	1,533,228
Police Department	8,914,893	8,273,632	7,567,620	6,903,838	6,289,005
Fire Department	6,405,874	5,702,804	5,179,104	4,841,832	4,195,334
Economic and Community Development	122,074	41,623	773,703	594,417	582,200
Development Services	1,883,224	1,712,993	1,536,141	1,432,792	1,298,243
Parks and Recreation	6,045,622	5,185,737	5,168,231	4,592,990	4,263,428
Office of Technology & Information	2,293,734	2,229,600	1,760,191	1,498,635	1,226,991
Public Works	5,211,720	4,583,796	4,353,073	3,923,009	3,821,635
Library Services	734,083	581,768	600,776	571,742	546,437
Reimbursed Administrative	(5,823,852)	(5,287,928)	(4,645,701)	(4,034,541)	(3,683,731)
Public Agency Funding	-	290,644	519,712	334,932	-
Contributions	208,485	-	-	-	-
Other	96,564	316,113	24,458	10,403	448,263
Capital Outlay	150,000	376,328	397,312	659,861	641,779
Total Expenditures	\$ 31,675,353	\$ 28,806,157	\$ 26,977,251	\$ 24,849,104	\$ 22,786,596
Other Financing Sources (Uses):					
Sale of General Fixed Assets	\$ 30,106	\$ 24,329	\$ 55,403	\$ 22,082	\$ 32,375
Return on Investment	0	0	0	0	0
Operating Transfers In	6,534,900	6,198,141	5,923,785	5,400,175	5,396,700
Operating Transfers Out	(480,807)	(767,000)	(1,115,376)	(756,284)	(2,478,117)
Total Other Financing Sources (Uses)	\$ 6,084,199	\$ 5,455,470	\$ 4,863,812	\$ 4,665,973	\$ 2,950,958
Excess (Deficiency of Revenues and Other Financing sources Over (Under) Expenditures and Other Financing Uses	\$ 678,525	\$ 1,004,517	\$ 618,651	\$ 550,335	\$ (402,072)
Fund Balance, Beginning of Year	9,432,700	8,428,183	7,809,532	7,259,196	7,661,268
Fund Balance, End of Year ⁽¹⁾	\$ 10,111,225	\$ 9,432,700	\$ 8,428,183	\$ 7,809,532	\$ 7,259,196

(1) The City's financial policies are for a General Fund balance of 15% of budgeted appropriations at year end. To the extent that the General Fund balance exceeds this amount, this surplus may be expended in future years for one time expenditures such as capital items and short term projects.

Source: City's audited financial statements for fiscal years 1998 through 2002.

TABLE 12 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, VATCS, Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Obligations. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. In May 1990, the voters of the City approved the imposition of an additional sales and use tax of one-half of one percent ($\frac{1}{2}\%$ of 1%).

Fiscal Year Ended 9-30	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita ⁽¹⁾
1998	\$10,912,466	140.66%	0.60	173
1999	11,662,546	140.64%	0.60	176
2000	12,759,591	140.70%	0.60	188
2001	13,031,079	131.10%	0.56	186
2002	13,648,835	114.77%	0.55	194

(1) Based on population estimates provided by the City.

FINANCIAL POLICIES

GASB 34 . . . The City is a Phase II City which requires GASB 34 implementation for the fiscal year ending September 30, 2003. The City fully expects to meet the GASB 34 reporting deadline.

Basis of Accounting . . . The accounts of the City are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. Governmental funds are used to account for the City's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting.

General Fund . . . The General Fund is the City's primary operating fund. It is used to account for all activities typically considered governmental functions of the City. These include Public Safety, Public Works, Parks and Recreation, Economic and Development Services, the support functions for these areas, and the administrative functions for the City.

The General Fund for the 2002-03 fiscal year is influenced by current policies and any approved policy changes. The policies include inter-fund equity; maintaining a balance between revenues and expenditures; and maintaining the level of service currently provided as the City experiences residential and commercial growth.

The City's financial policies are for a General Fund balance of 15% of budgeted appropriations at year end. To the extent that the General Fund balance exceeds this amount, this surplus is to be expended in future years for one time expenditures such as capital items and short term projects.

Debt Service Fund . . . The Debt Service Fund accounts for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds. It is the City's policy to maintain at least 15% of annual appropriated expenditures for debt service and any associated fees as the Debt Service Fund balance at fiscal year end. The fund is in compliance with that policy.

Budgetary Procedures . . . Prior to September 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them. All budget requests are compiled by the Finance Department and presented with comparative and supporting data to the Mayor and City Council for review. Public hearings are properly advertised and conducted at City Hall for taxpayer comments. Prior to September 27, the budget is legally enacted through passage of an ordinance. The City Council must approve all transfers of budgeted amounts between departments within any fund and any revision that alters the total expenditure of any fund. An amount is also budgeted each year for contingencies which may arise.

INVESTMENTS

The City invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the City Council. Both state law and the City's investment policies are subject to change.

LEGAL INVESTMENTS . . . Under Texas law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, (6) certificates of deposit issued by a state or national bank, a savings bank or a state or federal credit union domiciled in the State of Texas that are (a) guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or (b) are secured as to principal by obligations described in the clauses (1) through (5) and clause (12), which are intended to include all direct federal agency or instrumentality issues that have a market value of not less than the principal amount of the certificates or in any other manner and amount provided by law for City deposits, (7) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (8) bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (9) commercial paper that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (10) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, (11) no-load mutual funds registered with the Securities and Exchange Commission that: have an average weighted maturity of less than two years; invests exclusively in obligations described in the preceding clauses; and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent, and (12) bonds, notes or other obligations, issued by the State of Israel. In addition, the City may invest bond proceeds in accordance with the terms of a guaranteed investment contract, consistent with the provisions of Chapter 2256, Texas Government Code (the "PFIA").

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

INVESTMENT POLICIES . . . Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City will submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the City Council.

ADDITIONAL PROVISIONS . . . Under Texas law the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (7) restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

Under Texas law, the City may contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance or resolution. The City has not contracted with, and has no present intention of contracting with, any such investment management firm or the State Securities Board to provide such services.

CITY'S INVESTMENT POLICY. . .The Director of Fiscal Services will promptly invest all City funds with the Bank Depository in accordance with the provisions of the current Bank Depository Agreement or in any negotiable instrument that the City Council has authorized under the provisions of the PFIA, as amended, and in accordance with the City Council approved Investment Policies.

At the end of each fiscal year, a report on investment performance will be provided to the City Council. In conjunction with the monthly financial report, the Director of Fiscal Services will prepare and provide a written recapitulation of the City's investment portfolio to the Council, detailing each City investment instrument with its rate of return and maturity date.

TABLE 13 - CURRENT INVESTMENTS

As of December 31, 2002, the City's investable funds were invested in the following categories:

Investment Type	Book Value	Market Value
Demand Bank Accounts	\$ 1,568,520	\$ 1,568,520
Pooled Cash (Texpool)	38,800,779	38,800,779
Money Market Mutual Fund (Fidelity)	10,112,112	10,112,112
Flexible Repurchase Agreements	12,675,224	12,675,224
U.S. Treasury Notes and Bonds	2,012,187	2,035,625
Subtotal	\$ 65,168,822	\$ 65,192,260
Agencies:		
Federal National Mortgage Association (FNMA)	\$ 25,013,604	\$ 25,228,750
Federal Farm Credit Bank (FFCB)	4,003,160	4,042,593
Federal Home Loan Mortgage Corporation (FHLMC)	10,055,340	10,136,948
Federal Home Loan Bank (FHLB)	26,056,700	26,313,750
Subtotal	\$ 65,128,804	\$ 65,722,041
Total	\$ 130,297,626	\$ 130,914,301

TAX MATTERS

OPINION

On the date of initial delivery of each series of the Obligations, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Obligations for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) neither series of the Obligations will be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations. See "APPENDIX C -- FORM OF OPINIONS OF BOND COUNSEL."

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the City, including information and representations contained in the City's federal tax certificate, and (b) covenants of the City relating to certain matters, including arbitrage and the use of the proceeds of the Obligations and the property financed or refinanced therewith. Although it is expected that each series of the Obligations will qualify as tax-exempt obligations for federal income tax purposes as of the date of issuance, the tax-exempt status of the Obligations could be affected by future events. However, future events beyond the control of the City, as well as the failure to observe the aforementioned representations or covenants, could cause the interest on either series of the Obligations to become taxable retroactively to the date of issuance.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Obligations.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the City that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Obligations, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the holders of the Obligations may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT

The initial public offering price to be paid for one or more maturities of the Obligations (the "Original Issue Discount Obligations") may be less than the principal amount thereof or one or more periods for the payment of interest on the Obligations may not be equal to the accrual period or be in excess of one year. In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Obligation, and (ii) the initial offering price to the public of such Original Issue Discount Obligation would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Obligations less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Obligation in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Obligation equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Obligation prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Obligation in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Obligation was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Obligation is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Obligations and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Obligation for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Obligation.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Obligations which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Obligations should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Obligations and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Obligations.

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Obligations. This discussion is based on Existing Law which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, owners of interests in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE OBLIGATIONS.

Interest on the Obligations will be includable as an adjustment for "adjusted current earnings" to calculate the alternative minimum tax imposed on corporations by section 55 of the Code. Section 55 of the Code imposes a tax equal to 20 percent for corporations, or 26 percent for noncorporate taxpayers (28 percent for taxable income exceeding \$175,000), of the taxpayer's "alternative minimum taxable income," if the amount of such alternative minimum tax is greater than the taxpayer's regular income tax for the taxable year.

Interest on the Obligations may be subject to the "branch profits tax" imposed by section 884 of the Code on the effectively-connected earnings and profits of a foreign corporation doing business in the United States.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Obligations, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Obligations, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

STATE, LOCAL AND FOREIGN TAXES

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Obligations under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinances, the City has made the following agreement for the benefit of the holders and beneficial owners of the Obligations. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Obligations. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

ANNUAL REPORTS . . . The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 13 and in Appendix B. The City will update and provide this information within six months after the end of each fiscal year. The City will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the State of Texas and approved by the staff of the United States Securities and Exchange Commission (the "SEC").

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and the SID of the change.

MATERIAL EVENT NOTICES . . . The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Obligations, if such event is material to a decision to purchase or sell Obligations: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Obligations; (7) modifications to rights of holders of either series of the Obligations; (8) Obligation calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Obligations; and (11) rating changes. (Neither the Obligations nor the Ordinances make any provision for redemption, debt service reserves or liquidity enhancement.) In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "ANNUAL REPORTS." The City will provide each notice described in this paragraph to the SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

AVAILABILITY OF INFORMATION FROM NRMSIRS AND SID . . . The City has agreed to provide the foregoing information only to NRMSIRs and the SID. The information will be available to holders of Obligations only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas has been designated by the State of Texas and approved by the SEC staff as a qualified SID. The address of the Municipal Advisory Council is 600 West 8th Street, P. O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947.

LIMITATIONS AND AMENDMENTS . . . The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Obligations at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Obligations may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Obligations in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Obligations consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Obligations. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "ANNUAL REPORTS" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . The City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

OTHER INFORMATION

RATINGS

The presently outstanding tax supported debt of the City is rated "Aa3" by Moody's and "AA-" by S&P. The City also has several issues outstanding which are rated "Aaa" by Moody's and "AAA" by S&P through insurance by various commercial insurance companies. Applications for ratings on the Obligations have been made to Moody's and S&P. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Obligations.

LITIGATION

It is the opinion of the City Attorney and City Staff that there is no pending litigation against the City that would have a material adverse financial impact upon the City or its operations.

REGISTRATION AND QUALIFICATION OF OBLIGATIONS FOR SALE

The sale of the Obligations has not been registered under the federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Obligations have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Obligations been qualified under the securities acts of any jurisdiction. The City

assumes no responsibility for qualification of the Obligations under the securities laws of any jurisdiction in which the Obligations may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Obligations must not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Obligations are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Obligations by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Obligations be assigned a rating of “A” or its equivalent as to investment quality by a national rating agency. See “OTHER INFORMATION - RATINGS” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Obligations are legal investments for state banks, savings banks, trust companies with at capital of one million dollars or more, and savings and loan associations. The Obligations are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Obligations are legal investments for various institutions in those states.

LEGAL OPINIONS

The City will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Obligations, including the unqualified approving legal opinion of the Attorney General of Texas approving the Obligations and to the effect that the Obligations are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Obligations will be excludable from gross income for federal income tax purposes under section 103(a) of the Code, subject to the matters described under “TAX MATTERS” herein, including the alternative minimum tax on corporations. Bond Counsel has reviewed the information relating to the Obligations and the Ordinances to determine that such information conforms to the Ordinances. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Obligations is contingent on the sale and delivery of the Obligations. The legal opinion will accompany the Obligations deposited with DTC or will be printed on the Obligations in the event of the discontinuance of the Book-Entry-Only System. In connection with the transactions described in the Official Statement, Bond Counsel represents only the City.

The various legal opinions to be delivered concurrently with the delivery of the Obligations express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgement, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from City records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

FINANCIAL ADVISOR

First Southwest Company is employed as Financial Advisor to the City in connection with the issuance of the Obligations. The Financial Advisor's fee for services rendered with respect to the sale of the Obligations is contingent upon the issuance and delivery of the Obligations. First Southwest Company, in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Obligations, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the City and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

INITIAL PURCHASER

After requesting competitive bids for the Bonds, the City accepted the bid of _____ (the "Initial Purchaser of the Bonds") to purchase the Bonds at the interest rates shown on the inside front cover of this Official Statement at a purchase price of _____% of the principal amount thereof plus a cash premium of \$ _____. The initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of, the Initial Purchaser of the Bonds. The City has no control over the price at which the Bonds are subsequently sold. The Initial Purchaser of the Bonds can give no assurance that any trading market will be developed for the Bonds after their sale by the City to the Initial Purchaser of the Bonds.

After requesting competitive bids for the Certificates, the City accepted the bid of _____ (the "Initial Purchaser of the Certificates") to purchase the Certificates at the interest rates shown on the inside front cover of this Official Statement at a purchase price of _____% of the principal amount thereof plus a cash premium of \$ _____. The initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of, the Initial Purchaser of the Certificates. The City has no control over the price at which the Certificates are subsequently sold. The Initial Purchaser of the Certificates can give no assurance that any trading market will be developed for the Certificates after their sale by the City to the Initial Purchaser of the Certificates. The Initial Purchaser of the Bonds and the Initial Purchaser of the Certificates will be referred to collectively as the "Initial Purchasers."

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Obligations, the City will furnish a certificate, executed by proper officers, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of said Obligations and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since the date of the last audited financial statements of the City.

The Ordinances authorizing the issuance of the Obligations will also approve the form and content of this Official Statement, and any addenda or amendment thereto, and authorize its further use in the reoffering of the Obligations by the Underwriters.

Mayor
City of College Station, Texas

ATTEST:

City Secretary

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

THE CITY

The City, located in Brazos County, is situated in the middle of a triangle bounded by Dallas/Ft. Worth, Houston, and San Antonio and Austin. Approximately 80% of the Texas population is located within a 200 mile radius of the City. The City is principally a residential community for faculty, students and other personnel of Texas A&M University. The City periodically accesses technical information and assistance made available by Texas A&M University.

The City was incorporated in 1938 and has a Council-City Manager form of government with City employees totaling 805 currently.

The City adopted and enforces comprehensive zoning and building restrictions aimed at assuring orderly growth and development. The City's ordinances require all subdividers, at their own expense and without provision for refund, to install streets and water and wastewater lines in any planned subdivision. These facilities are constructed under the City's specifications and inspection and when completed are deeded to the City free and clear. All areas within the City are now adequately served with water, wastewater and electric service.

CITY OWNED FACILITIES

The City has constructed a major part of its present facilities out of current revenues. Approximately 711 lane miles of streets (99.8%) within the City are hard surface. The City has a complete water distribution, wastewater collection and treatment system with 470 miles of wastewater and water lines. The City owns the electrical distribution system with 256 miles of distribution lines, and purchases its electricity from Texas Utilities.

The City has a fully equipped police department with 98 full time police officers and 44.5 support personnel and fire department with 100 full-time equivalents. The City has 18 police patrol cars and one holding facility with a capacity of 20.

EDUCATIONAL FACILITIES

The College Station Independent School District is a fully accredited system offering educational facilities for kindergarten through high school. The School District has a student enrollment in excess of 5,200 and employs over 600 people. The School District's facilities are also used by Blinn College, offering two years of college level courses.

Texas A&M University provides higher educational facilities, offering both four year college programs and graduate degree programs.

HEALTH CARE

The Brazos Valley Medical Center is located on 25 acres within the City. The 100,000 square foot facility is a full care hospital containing 100 beds and employing 340 people. Other area health care providers include: Care Plus Medical Center, College Station Medical Center, St. Joseph Regional Health Care Center, and Scott & White Clinic.

TRANSPORTATION

U.S. Highway 190/State Highway 21 links the City to Interstate 45 which is located approximately 35 miles to the east. State Highway 21 via U.S. Highway 290 also links the City to Austin, located approximately 110 miles to the west. State Highway 6 links the City to Waco (100 miles) and Interstate 35 to the north, and Houston (90 miles) to the south. Also, State Highway 30 links the City to Huntsville (45 miles) and Interstate 45 to the east.

Airlines	Commercial, corporate and private airport facilities are provided by Easterwood Airport, which is located on the City's west side and is owned and operated by Texas A&M University. American Eagle Airlines provides daily flights to and from Dallas-Fort Worth Airport out of Easterwood.
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	Coulter Field is located north of the City of Bryan and provides a recently completed 4,000 foot lighted runway. Coulter Field offers all types of services for the private aircraft.
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Bus Lines	Two bus lines serve the City with daily service connecting the City with Houston and Dallas.
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Railroads	Rail freight service is provided by the Union Pacific Railroad. Union Pacific Railroad operates a main freight line from Houston through Bryan-College Station to Dallas-Fort Worth and beyond.
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RECREATION

The College Station park system presently includes 42 parks encompassing 1,134 acres, including a 515 acre wilderness park. Collectively, these parks contain 24 playgrounds, 28 soccer fields, 17 basketball courts, 19 softball/baseball diamonds, 3 swimming pools, a gymnasium, and a number of picnic shelters. The Parks Department sponsors a variety of organized athletic and aquatic programs as well as many special events throughout the year.

POPULATION

	Official U.S. Census						
	1940	1950	1960	1970	1980	1990	2000
City of College Station	2,184	7,925	11,396	17,676	37,272	52,456	67,890
Brazos County	26,977	38,390	44,895	57,978	93,588	121,862	152,415

ECONOMIC BACKGROUND

Texas A&M University and System

Of major importance to the City is Texas A&M University which has a 5,200 acre campus located within the City. The City is principally a residential community for faculty, students and other personnel of the University. Texas A&M University and its System are the largest employer in Brazos County and a major contributor to the local economy. Texas A&M has a significant economic impact on the City, contributing an estimated \$766.5 million annually to the local economy. Texas A&M has consistently ranked in the top ten nationally among public institutions of higher education in both enrollment and research grants. Research dollars totaled approximately \$402 million for 2001. The University has approximately 25,700 permanent and part-time employees with a payroll of \$679 million and has a physical plant valued in excess of \$1.5 billion.

Texas A&M had an enrollment of 44,026 students, the 3rd largest in the nation, during the fall semester of 2000. There are currently over 700 National Merit Scholars enrolled at Texas A&M University, ranking in the nation's top 10 universities for National Merit Scholar enrollment.

Student Rec Center

The Student Rec Center is a 286,000 square foot building located on the Texas A&M University campus. The Center includes multi-purpose gyms with badminton, basketball and volleyball courts, indoor soccer courts with dasher boards, 14 racquetball/handball courts, and two squash courts with glass backwalls. The Center is home to a 14,000-square foot area with machine weights, free weights, cardio-vascular equipment, and a cardio-theater; five activity rooms for aerobics, dance and martial arts; and a quarter-mile four-lane walking/jogging track. It features a 42-foot indoor rock climbing facility with interchangeable hand and footholds, an outdoor activity area with a six-lane lap, and a free-form pool with a cool water spa. The building also houses a natatorium that seats 2,500 with a 50-meter, eight-lane Olympic-size pool, a five-lane instructional pool, a diving well with one and three meter springboards and competitive platforms, and hot tubs.

George Bush Presidential Library and Museum

The City is the site of the George Bush Presidential Library and Museum, located on the campus of Texas A&M University. Texas A&M provides programs and facilities such as research and instructional programs related to the library and museum, a conference center, communications center, educational museum/library center, and family-oriented facilities such as a park surrounding the presidential library and museum.

During 2000, the presidential library and related facilities attracted more than 150,000 visitors to the community. As a result, the room occupancy rate for 2002 was in excess of 62%. The increase in tourism has spurred the construction of several new hotels. In addition, the City is currently under contract for a public/private venture to construct a 300-room full service hotel to be associated with a City owned 45,000 square foot conference center. This project is scheduled to be completed in the 2nd quarter of 2005.

Reed Arena

Reed Arena is a special events center located on the Texas A&M University campus. The Arena seats up to 12,500 people and is the largest such facility in the Brazos Valley area. The center attracts athletic events, concerts and exhibits.

MAJOR AREA EMPLOYERS

Firm Name	Product	Number of Employees
Texas A&M University and System	Education/Research	19,971
Bryan ISD	Education	1,868
St. Joseph's Regional Hospital	Hospital	1,170
Reliant Building Products	Aluminum Windows	1,100
Sanderson Farms, Inc.	Poultry Processing	1,100
City of Bryan	Municipal	859
City of College Station	Municipal	805
College Station ISD	Education	800
Brazos County	Government	796
Wal-Mart Supercenter – Bryan	Retail	600
UCS/Rentsys	Computer Hardware and Software	550
Hamilton State School	Education	500
Young Contractors, Inc.	Construction	500
Scott & White Clinic	Clinic	375
College Station Medical Center	Medical	327
First American Bank SSB	Bank	300
Blinn College	College	293
Britt Rice Electric	Electrical Contractor	200
Kent Moore Cabinets	Cabinet Manufacturer	200

Source: Bryan-College Station Economic Development Corporation.

In addition to the University, employment is provided by more than 85 manufacturing industries located in, or adjacent to, the City which produce such products as aluminum windows, furniture, chemicals, dairy products, feeds and fertilizers, modular homes, bronze castings, and geophysical survey sensors. A growing research park is located within the Texas A&M campus. Major tenants include the Offshore Technology Research Center and the Food Safety Inspection School National Training Center. Automated Management systems provides a major automated accounting service for independent property and casualty insurance agents. The City has also developed the College Station Business Center, a 200-acre business park. Tenants within the park include United Computer Systems ("UCS"), which employs approximately 800 people; Cabletime, a graphics advertising business; Prodigene, a biotechnology research business; and Stata Corporation, a software research business. Businesses either under construction or in place account for approximately 300,000 square feet of buildings and employ approximately 1,000 people.

LABOR STATISTICS

College Station

Year	Labor Force	Total Employment	Unemployment	Rate
1997	28,051	27,421	630	2.2%
1998	29,371	28,846	525	1.8%
1999	30,059	29,506	553	1.8%
2000	30,538	30,051	487	1.6%
2001	30,881	30,349	532	1.7%
2002 ⁽¹⁾	31,667	31,088	579	1.8%

Brazos County

Year	Labor Force	Total Employment	Unemployment	Rate
1997	70,429	68,925	1,504	2.1%
1998	73,761	72,508	1,253	1.7%
1999	75,486	74,166	1,320	1.7%
2000	76,699	75,537	1,162	1.5%
2001	77,554	76,285	1,269	1.6%
2002 ⁽¹⁾	79,524	78,143	1,381	1.7%

Source: Texas Workforce Commission.

(1) Average through October.

SALES AND EFFECTIVE BUYING INCOME

College Station

Calendar Year ⁽¹⁾	Estimated Population	Total Retail Sales	Median Household Effective Buying Income	Total Household Effective Buying Income
1997	60,300	713,118,000	18,919	715,456,000
1998	66,000	792,531,000	19,481	820,064,000
1999	65,400	626,034,000	21,456	873,068,000
2000	67,200	987,041,000	23,260	976,163,000
2001	70,400	974,869,000	25,661	1,007,953,000

Brazos County

Calendar Year ⁽¹⁾	Estimated Population	Total Retail Sales	Median Household Effective Buying Income	Total Household Effective Buying Income
1997	132,600	1,356,737,000	26,271	1,843,501,000
1998	142,400	1,487,107,000	26,651	2,084,009,000
1999	145,000	2,066,179,000	27,925	2,230,843,000
2000	154,700	2,307,670,000	29,418	2,441,456,000
2001	158,600	2,225,738,000	30,992	2,534,254,000

(1) Calendar year 2002 was not available at time of printing.

Source: Sales & Marketing Management.

BUILDING PERMITS

College Station has grown rapidly over the past 26 years as evidenced by an increase in population from 17,676 in 1970 to 68,038 in 2000. The following table sets forth the number and value of construction permits issued by the City over the past several years.

Year	Residential Construction		Commercial Construction		Total	
	Number of Permits	Value	Number of Permits	Value	Number of Permits	Value
1997	590	\$ 53,435,022	212	\$ 47,682,555	802	\$101,117,577
1998	655	69,831,880	150	57,439,865	805	127,271,745
1999	1,020	87,917,466	138	26,665,024	1,158	114,582,490
2000	639	85,278,855	162	46,094,230	801	131,373,085
2001	782	79,340,756	191	40,194,722	973	119,535,478

Source: The City.

COUNTY CHARACTERISTICS

Brazos County was created in 1841 from Robertson and Washington Counties. The economy is diversified primarily by agribusiness, computer manufacturing, research and development, and education. The Texas Almanac designates cattle, hogs, sorghums, corn, cotton, wheat, oats and pecans as the principal sources of agricultural income.

The County had a 2000 population of 152,415, an increase of 25.07% since 1990. Minerals produced in the County include sand and gravel, lignite, gas and oil.

APPENDIX B

EXCERPTS FROM THE
CITY OF COLLEGE STATION, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2002

The information contained in this Appendix consists of excerpts from the City of College Station, Texas Annual Financial Report for the Year Ended September 30, 2002, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

